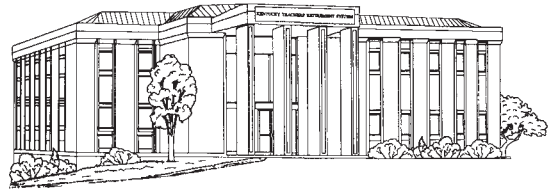


KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY

RETIRED MEMBER EDITION
October/November 2004



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for Retirees
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BACK!

2005 Medicare Eligible Health Plan For Retirees Age 65 & Over

The KTRS self-insured Medicare Eligible Health Plan (MEHP) for retirees age 65 and above was not affected by the General Assembly's recent passage of House Bill One. This legislation changed benefits and open enrollment dates for our retirees under the age of 65. If you are currently covered on the KTRS MEHP your coverage will continue unless you submit a letter to this office requesting to cancel your coverage. If you become Medicare eligible and have previously waived coverage, or need to enroll your Medicare eligible spouse in coverage, the open enrollment for the MEHP is scheduled for June 2005. You will be notified of the MEHP open enrollment in the KTRS Spring Newsletter. To enroll outside of open enrollment, you

must be experiencing a qualifying event. However, if you are currently enrolled in coverage through KTRS and will be turning 65 in 2005, you will be sent a packet and will be automatically enrolled in the MEHP unless you notify this office in writing to decline this coverage.

The 2005 monthly premium for the MEHP will be \$288.00 as compared to \$274.00 per month in 2004. KTRS will continue to pay the full premium rate for retirees with 20 or more years. For retirees with less than 20 years of service credit, your rate will be based on years of service credit. Spouses who elect coverage in the MEHP will pay the full premium cost of \$288.00 per month in 2005.

Retiree Medical Insurance Plan Developments (For KTRS Membership, Under Age 65)

Members of the Kentucky General Assembly met in Extraordinary Session, October 5-19, 2004, to resolve issues regarding cost and choices contained in Governor Ernie Fletcher's proposed State Group Health Plan (SGHP) for Plan Year 2005. The SGHP includes active educators and public employees, as well as retired educators and public employees.

Kentucky Teachers' Retirement System (KTRS) staff members were very proactively involved during the

legislative process, contacting key members of both the Senate and House of Representatives, to voice concerns regarding the equitable treatment of KTRS membership in all deliberations.

We are very happy to report to you that as a result of these efforts, along with the support of key legislators, KEA, KEA-R, KRTA, the KTRS Board of Trustees and MANY of you, the KTRS legislative agenda was a success. Specifically, these major goals were included with the adoption of HB 1 at the conclusion of

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the 2004 Extraordinary Legislative Session:

(1) KTRS membership, under age 65, are to be afforded the same subsidies, coverage and benefits as given to active teachers and public employees participating in the SGHP, including a monthly subsidy by the Commonwealth of the "Enhanced Plan" of \$187 per month for family coverage, \$155 per month for couple coverage, and \$89 per month for parent-plus coverage. Rates quoted in the information sent to you have been reduced by these subsidies.

(2) Funding for the 2004-2005 0.8% COLA adjustment and for the 2005-2006 0.7% COLA adjustment. The 2004-2005 adjustment will be included in the October annuity check. As the COLA adjustment is retroactive to July 2004, a separate payment will be made to the KTRS membership to compensate for July, August and September. Also, consideration was given to future funding needs of HB 434, enacted during the 2004 Regular Session, which states that the Governor and General

Assembly must provide funding for the medical insurance benefit of retirees unless it is in the best interest of the Commonwealth to suspend that benefit.

(3) A Blue Ribbon Panel on Public Employee Health Benefits was created by the General Assembly to examine all aspects of available health benefits, making recommendations and proposing legislation as necessary. KTRS will have a representative on this important Panel to advocate for the inclusion of retirees when options are considered.

(4) The Legislature will explore the 2005 Plan framework to better prepare the 2006 Plan, including consideration of an option to self-insure the State Group Health Plan, with an emphasis on containing costs and providing uniform and equitable coverage across the state.

KTRS staff is proud of the accomplishments, made on behalf of retirees, in the 2004 Extraordinary Legislative Session, and remains committed to pursuing the most cost-effective, comprehensive medical benefits plan available for KTRS membership.

Retirees Under Age 65 - 2005 Open Enrollment Deadline November 12, 2004

Revised Open Enrollment materials (Cover letter with rates, new Application, Supplement to the original booklet and return envelope) were mailed to this group on Monday, October 25, 2004. Retirees in this group **MUST** complete the **revised** application in order to obtain coverage in 2005. The deadline for returning the revised KTRS application is November 12, 2004. All information can be accessed on KTRS web site: www.KTRS.ky.gov.

Harbin Elected to National Council on Teacher Retirement Executive Committee

Gary L. Harbin, Executive Secretary of the Kentucky Teachers' Retirement System (KTRS), was recently elected to serve on the Executive Committee of the National Council on Teacher Retirement (NCTR).

NCTR is a national, nonprofit organization whose mission is to promote effective governance and benefits administration in state and local public pension systems in order that adequate and secure retirement benefits are provided to educators and

other plan participants. NCTR membership includes 77 state, territorial, local and university pension systems with combined assets in excess of \$1.4 trillion, serving more than 16 million active and retired teachers, non-teaching personnel and other public employees.

Harbin, a certified public accountant, has more than 30 years of auditing and management experience in retirement systems and was named KTRS Executive Secretary in December 2000.

Medical Insurance Funding Formula Changed by Legislative Action - Allows KTRS to Request Necessary Appropriations

A significant change occurred for the KTRS medical insurance fund during the 2004 Regular Session of the General Assembly that adjourned April 15. House Bill 434 (HB 434) permanently alters the funding mechanism for the retired teachers' medical insurance fund. The legislation received broad bi-partisan support and was signed into law by the Governor.

Previously, the health insurance program for retired teachers was a pay-as-you-go plan, with medical payments paid from a combination of contributions from active teachers and an allocation from the state budget. The new funding structure allows the KTRS Board of Trustees to statutorily request the necessary funds to sustain medical benefits for our retirees. The System's actuary on a biennial basis will determine the amount of funding requested of the General Assembly. Although the General Assembly and Governor changed the funding formula in the 2004 session, the amount of funding requested for the 2004-2005 and 2005-2006 fiscal years was not appropriated.

The KTRS medical insurance program, created in 1964, coincided with the development of the Medicare Supplement for Social Security participants. The funding structure for the KTRS medical insurance program had not been changed

since 1986, although costs for medical expenses and services have risen dramatically. The change in the funding mechanism will ensure that retired teachers have access to the same benefits as retired public employees only to the extent that the General Assembly appropriates the funding requested by KTRS.

The KTRS medical insurance program is divided into two plans. The first plan is for retired educators under age 65 who are a part of the State Group Health Plan. The policy for this plan is procured by the Finance Cabinet through a combination of negotiation and bids. The second plan is for retired educators age 65 and over who are a part of the self-funded, Medicare Eligible Health Plan administered by KTRS. Both plans are financially supported by the KTRS medical insurance fund.

During the recently adjourned 2004 Extraordinary Legislative Session, legislators considered future funding needs of HB 434. KTRS staff members will work to inform legislators of the importance of the full funding of this legislation during the 2005 Regular Session of the General Assembly, which convenes in January. You can help by contacting your Legislators and requesting their support for full funding of medical benefits for retired educators provided by HB 434.



THE POSITIVE IMPACT OF KTRS ON THE LOCAL & STATE ECONOMY

"Retirement System Supports Local School Districts"

This is the second in a series of articles that will explore and highlight the value of KTRS to Kentucky's communities, schools and educators.

The Kentucky Teachers' Retirement System provides support to local school districts in several ways. First, the retirement benefit serves as an important incentive in attracting and retaining quality teachers, many of whom are not compensated at the same level as other professionals. The prospect of a guaranteed lifetime

annuity earned by career teachers is an attractive employee benefit.

Secondly, when career teachers are replaced with entry-level teachers, there is a tremendous financial savings to the local school district. Since the annual salary difference between a career teacher and an

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The Positive Impact of KTRS continued . . .

entry-level teacher is approximately \$20,000, local school district payrolls are reduced. Currently, significant numbers of educators (approximately 1 in 5) are eligible to retire. When these educators do retire and are replaced, the savings to the district in payroll costs could exceed \$250 million dollars per year.

A third level of support is realized when a career teacher realizes that retirement is an attractive prospect due to reduced effectiveness in the classroom or a loss of interest and desire to remain in teaching. When this occurs, the existence of a guaranteed retirement program allows both the teacher and local school district to address priorities

directly without instituting special policies to accommodate the financial welfare of teachers who desire to retire.

Finally, local school districts contribute the employer's portion of Social Security withholding on the wages of classified personnel. However, since teachers are not subject to the Social Security Act, employers are not required to make this contribution on their wages. On a state-wide basis, if members of the Teachers' Retirement System were subject to the Social Security Act, payroll costs, due to the employer's portion of Social Security withholding, would rise by \$360 million per year if local school districts maintained the same levels of take-home pay for their teachers.

Kentucky's Affordable Prepaid Tuition is BACK!

With today's bad news of tuition increases, paying for college may seem out of reach. But there is good news—KAPT is back!

Kentucky's Affordable Prepaid Tuition (KAPT) reopened for enrollment on August 23. KAPT helps make it easier for Kentucky families to afford a college education by guaranteeing the cost of tomorrow's tuition at lower prices today. Parents, grandparents, and others can prepay tuition in a lump sum or in monthly payments. KAPT offers several tuition plans and payment options; and funds can be used at any eligible higher education institution, public or private, anywhere in the country. Plus, earnings are exempt from state and federal taxes.

"We are excited to reopen KAPT for enrollment," said Jo Carole Ellis, KAPT's Executive Director.

"This is a great opportunity for families to plan and pay for tuition costs while saving money and getting some great tax benefits. Enrollment ends December 13, so don't miss the deadline and miss out on this year's prices."

KAPT is administered by the Kentucky Higher Education Assistance Authority (KHEAA), the state government agency that administers need-based grants, Kentucky Educational Excellence Scholarships (KEES), work-study, savings, and loan programs to help pay for higher education.

For more information on enrolling in KAPT, visit www.getkapt.com or call 1-888-919-KAPT.

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